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TODAY

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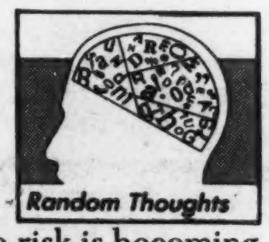
Quote

This is not Machiavellian or nefarious or subliminal or anything else. It is a management contract with economic benefits on both sides — an opportunity that is hard to turn down.

Charles T. Russell, president of Visa U.S.A. Inc., commenting on Visa's contract to provide management services to Interlink, the point-of-sale debit card system owned by the four biggest California banks, a move questioned by MasterCard in light of the two competitors' agreement to work together on a debit card plan known as Entree. [Page 2]

Unquote

Random Thoughts



By SANFORD ROSE

The use of duration analysis to assess interest rate risk is becoming increasingly widespread at banks and thrifts. A palatable way to explain duration to senior management is to avoid the direct use of the word and substitute instead the phrase interest-rate elasticity — defined as the percentage change in the value of assets and liabilities for a 100 basis-point change in interest rates. Elasticities are determined by dividing the negative of durations by one plus the discount rate.

For example, assume that a bank has invested $1,000 in a three-year 10% coupon bond. Assume further that one-year rates stand at 9%, two-year rates at 10%, and three-year rates at 12%.

The duration of the bond is determined by first multiplying the present value factors derived from the three rates by the cash flows — for the sake of simplicity, assume three annual flows of $100, $100, and $1,100.

Then these present values are further multiplied by the respective times to receipt — one, two, and three years. The duration is the ratio

Random Thoughts: Page 4 ➡

Fed's Real Estate Investment Proposal Would Curb State Banks, Groups Say

By JIM McTAGUE
Washington Bureau

WASHINGTON — The Federal Reserve Board's proposals for admitting bank holding companies into the real estate game through nonbank subsidiaries would radically curtail the activities of state-chartered banks in such states as California and Ohio, according to trade groups.

The Fed on Monday proposed limiting a bank holding company's total investment in all real estate subsidiaries to 5% of its consolidated primary capital. In states such as California, where the Legislature has given local institutions broad powers, state-chartered institutions can invest up to 10% of their total assets in real estate, a figure about 20 times larger than what the Fed would allow, said industry sources.

However, for holding companies in about 31 other states, the guidelines could be beneficial. If adopted, they would permit bank companies to enter the real estate game as direct investors for the first time. The proposal does not cover banks that are not owned by holding companies.

The board voted Monday to solicit public comment on the new regulations. It is an about-face for the Fed, which since 1972 has said that direct real estate investment was not closely related enough to banking to be considered a permissible activity. But the board said changes in state laws permitting such activities by their locally chartered institutions, as well as a proposal by the Federal Deposit Insurance Corp. to allow direct investments, led it to reevaluate its stand.

Banks Unlikely to Fill Junk Bond Gap Left After Boesky Affair
Page 3

Among the issues the Fed's Board of

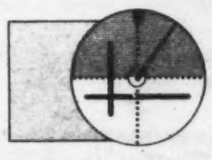
Real Estate: Page 15 ➡

Security Pacific Buys a Toehold In Washington

Adds Bank Near Olympia To Its Western Stable

By NINA EASTON
West Coast Bureau

LOS ANGELES — Security Pacific Corp., the nation's sixth largest bank holding company, has made its first move into Washington State with the acquisition of Harbor Security Bank, a $10 million-asset bank located southwest of Olympia.


Corporate Strategy

The acquisition, announced Monday, is the latest in a series of interstate moves that so far has given Los Angeles-based Security Pacific a presence in Arizona and a potential presence in two other states — Nevada and Oregon.

With the advent of interstate banking in California, Security Pacific is moving away from its earlier emphasis on expanding its operations through nonbank vehicles, particularly in the securities business, and is focusing on small and medium-sized bank acquisitions.

Security Pacific vice chairman Robert H. Smith said in an interview Monday that the banking concern expects to add about $10 billion in assets — expanding its banking activities in northern California, where it has an estimated 4% market share, and in neighboring states — over the next three to four years.

"Our goal is a $100 million total earnings stream" from those acquisitions over the same time period, said Mr. Smith, who also serves as chief operating officer of Security Pacific National Bank, the holding company's principal subsidiary. Security Pacific

Security Pacific: Page 14 ➡

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Barclays Cites Student Pressure In Decision to Exit South Africa

By JOHN J. DUFFY
London Bureau

LONDON — Barclays Bank PLC said Monday it has sold its remaining interest in its associate bank in South Africa and is pulling out of the country.

Barclays, one of Britain's top four clearing banks, said it sold its remaining 40.4% in Barclays National Bank Ltd., the biggest commercial bank in South Africa, to a group of South African institutions including the Anglo American Corp., De Beers Consolidated Mines, and the Southern Life Association. Both Anglo American and De Beers are controlled by South African industrialist Harry Oppenheimer.

Barclays' withdrawal is the largest divestment from South Africa yet by a foreign company.

Sir Timothy Bevan, Barclays' chairman, said the decision to sell the stake was made primarily because of the uncertain outlook for the South African economy and because of the bank's plans to devote fewer resources to former British colonial outposts, such as South Africa, and more to major modern banking markets, such as North America.

Sir Timothy also acknowledged, however, that the bank's business was

Barclays: Page 14

Bank of America to Sell Puerto Rican Automobile Finance Subsidiary
Page 15

Visa's Hire of First Interstate's Johnson Stirs Speculation on Russell's Successor

Bank's Former Credit Card Chief to Be 'Assistant to the President'

By JEFFREY KUTLER

SAN FRANCISCO — Moving to strengthen its top management and hasten its search for a future president, Visa U.S.A. Inc. has named A. Wayne Johnson as one of three executive vice presidents.

Mr. Johnson, 34, is the former chief executive officer of First Interstate Bancorp's credit card subsidiary.

He was given the added title of "assistant to the president," who is Charles T. Russell, and will take on corporate planning responsibility for the bank-owned payment services organization when he arrives after Dec. 1.

Mr. Johnson is the first outsider in years to be added to Visa's senior staff. This will likely fuel speculation about a possible successor to Mr. Russell, who is 56.

Mr. Russell said he was looking for "more depth in senior management," which was thinned by the departure of several executives since 1984 when Mr. Russell took over from Dee W. Hock as Visa's top officer.

Mr. Russell and Mr. Hock, the only chief executives in Visa's 17-year history, had maintained a tradition of promoting senior staff from within.

Mr. Johnson, who has been a management consultant as well as bank card manager at First Interstate, brings "a unique perspective [that] will add an important dimension to the management team," Mr. Russell said.

Mr. Russell, who is president of both

Visa Executive: Page 6

Correction

A table of off-premise automated teller machine leaders ("Top Banks Ranked by Number of Off-Premise ATMs," Nov. 17, page 39) incorrectly ranked Mellon Bank at the top of the list when it should have been fifth. Mellon Bank, Pittsburgh, has 87 off-premise ATMs; its holding company, Mellon Bank Corp., had 361 as of June 30, 1986.

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INTERNATIONAL BRIEFING

Compensation Isn't Only Reason For Executive Flight at Citicorp

LONDON — The turmoil that has prompted a string of senior defections from Citicorp Investment Bank Ltd. has as much to do with structural changes taking place within the organization as with the issue of compensation, Citicorp executives said.

The changes, which have been under way "for a number of months," according to one Citicorp executive, include a merging of the treasury and merchant banking divisions within Citicorp Investment Bank. The merger is taking place in the context of a gradual integration between the institutional bank, which does traditional wholesale corporate banking business, and the investment bank, which largely operates in the capital markets. This process has been under way for more than a year, since Citicorp first transferred the treasury division from the commercial bank to the investment bank. The merger between treasury and merchant banking are reportedly resulting in redundancies and in a rise in disaffection among senior personnel.

"It's a time of enormous change within the corporation and everything is in a bit of a flux right now," one Citicorp executive said on Friday.

The issue of compensation is significant in some cases but not in all, sources said. It has been most significant among securities traders in New York and London, where rival investment banks have traditionally paid considerably more than Citicorp.

The latest defections to hit Citicorp were the resignations last week of Mark D. Blundell, 36, the investment bank's executive director of interest rate risk management in London, and David P. Pritchard, 42, managing director of international securities. Mr. Blundell is joining Natwest Investment Bank Ltd., where he will serve as a director with responsibility for structuring and marketing interest rate swaps and other risk management techniques. Mr. Pritchard has been appointed vice chairman of Orion Royal Bank Ltd. and will be responsible for running the firm's capital markets business.

Both Mr. Blundell and Mr. Pritchard had been with Citicorp for nine years.

In addition to the executives who left last week, other recent Citicorp refugees include John C. Botts, who resigned as chairman of Citicorp Investment Bank Ltd., and Hans W. Ritz, managing director of Citibank AG in Frankfurt. Mr. Botts is starting his own joint venture in London, and Mr. Ritz left to join a German investment bank.

In an interview Friday, Mr. Blundell said that his decision to leave Citicorp for Natwest was based mostly on his desire to remain in London. "I wanted a job where I didn't have to worry about being pulled out of here in five or 10 years," he said. "I wouldn't mind puttering to the office when I'm 60 years old and I'm only 36 now," he said. Compensation was not an issue, he said, as salary levels at Citicorp and Natwest are roughly equivalent. "If money was the issue I'd go to work for Salomon Brothers," he said.

— John J. Duffy

ISRAELI GOVERNMENT MAY OWN BANKS: The Israeli government may wind up the unwilling owner of the nation's banks when bank shares it holds fall due for redemption in two years, a senior Israeli economic analyst predicted.

"In a country dedicated to the capitalist system, I'm not sure that is something that is desirable," Marshall Sarnat, professor of finance at the Hebrew University in Jerusalem, said at a panel discussion in New York on prospects for reforming financial markets in Israel.

Shares in Israel's major banks were converted, for all practical purposes, into government bonds in a bailout after a speculative bubble on the Tel Aviv Stock Exchange burst in October 1983. The conversion increased Israel's internal debt by some $7 billion. Internal public debt in Israel is estimated at $43 billion and its foreign debt at around $20 billion.

A recent government decision to reduce new issues of government paper by $300 million, according to Uriel Procaccia, Hebrew University professor of corporate and financial law, is meaningless without a corresponding reduction in budget spending.

Both speakers sharply criticized distortions in the local capital market created by government intervention.

Treasury borrowing in the bond markets and its hold on setting the terms for interest rates, duration, and types of linkage effectively precludes any competition for funds, said Mr. Sarnat.

He said this led to the stock manipulation by banks that triggered the 1983 collapse in share values.

Government intervention and the small size of the domestic market, he added, has prevented specialized securities brokerage houses from developing and has left banks as the country's principal underwriters, investment advisers, brokers, and managers of mutual funds and retirement funds.

"Banks must step back from their stranglehold on the equity market," said Mr. Sarnat, who called on the government to implement recommendations to reduce Israeli commercial banks' control over the primary and secondary securities market and permit the entry of other institutional participants.

— James Kraus